

# Lesson 15: The Failures of Socialism—Theor y

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## 1. Lesson 15: The Failures of Socialism—Theory

## 4. Chapter: Lesson 15: The Failures of Socialism—Theory

### 1. Lesson 15: The Failures of Socialism—Theory Questions

#### 4.1.1. Explain the term command economy.

Author: Robert Murphy

Explain the term command economy.

- The term refers to the fact that under (State) socialism, a group of a few (or one) political authorities controls all productive resources, including labor.

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#### 4.1.2. What is the incentive problem inherent in the slogan, "From each ac..."

Author: Robert Murphy

What is the incentive problem inherent in the slogan, "From each according to his ability, to each according to his needs"?

- The policy of this slogan severs the connection between work and reward. It is unlikely that workers would contribute as much to the pile of total output, if the amount they got to consume (or give to their family) had nothing to do with their contribution.

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### 4.1.3. Could a socialist government use punishment to overcome the problem...

Author: Robert Murphy

Could a socialist government use punishment to overcome the problem of shirking among workers?

- For certain, simple tasks—such as garbage collection and painting barns—a socialist government could use punishment to get workers to carry out their assigned duties. But many jobs require creativity and other unobservable aptitudes. A market economy allows workers to choose their own occupations and discover the fields where they can contribute the most. Even with the use of punishment, socialist officials wouldn't be able to force their subjects to produce the same output. (Could you really use a whip to force someone with nimble hands to spend years training to become a brain surgeon?)

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#### 4.1.4. What do beer companies and electric utilities have to do with socia...

Author: Robert Murphy

What do beer companies and electric utilities have to do with socialism?

- The argument in the text is that during summer months, companies that enjoy government-granted monopolies such as electric and water utilities often restrict their service, whereas private companies in open competition (such as beer and soda producers) welcome the boost in demand for their products.

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#### 4.1.5. \*Why doesn't a market economy suffer from the same calculation prob...

Author: Robert Murphy

\*Why doesn't a market economy suffer from the same calculation problem that plagues the socialist planners?

- The market overcomes the calculation problem because no one group is "in charge" who needs to decide everything. The decisions are instead dispersed among all the owners of producer goods (including labor). The profit and loss test, as revealed by market prices, guides the owners when they decide how to deploy their resources.

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#### 4.1.6. What is the incentive problem for workers under socialism?

Author: Robert Murphy

What is the incentive problem for workers under socialism?

- If people are not paid in accordance with their productive output—if they're paid according to "need"—then they might not work as hard under socialism as they would under capitalism. There would be fewer goods and services produced overall, meaning that the average standard of living would have to fall.  
Sample Partial Credit Answer  
People would have no reason to work as hard.

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#### 4.1.7. Describe socialism's "calculation problem" (which is NOT the same a...

Author: Robert Murphy

Describe socialism's "calculation problem" (which is NOT the same as the incentive problem).

- If the government owns all of the resources, then there can be no market prices for them. That means the government, when drawing up the detailed plans for what should be produced, won't have any way to quantify the costs of their decisions. The planners won't know if they are using resources efficiently.

Sample Partial Credit Answer

The government won't be able to calculate if it is doing a good job in its plan for the economy.

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#### 4.1.8. What is ironic about the various schemes that can be implemented to...

Author: Robert Murphy

What is ironic about the various schemes that can be implemented to "cure" socialism of its problems?

- In order to solve the problems of socialism, the central planners might (say) allow workers to swap their finished goods with each other and to vote on what gets produced, and the planners might also allow the factory managers some discretion in how much they produce, based on their expectations of customer demand. Yet with each refinement, the system would more closely resemble capitalism.

Sample Partial Credit Answer

The socialist system turns into a capitalist one.

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#### 4.1.9. Explain why you probably receive better service at Walmart than at ...

Author: Robert Murphy

Explain why you probably receive better service at Walmart than at the Department of Motor Vehicles.

- The DMV has a monopoly on its "services" and thus has little incentive to keep its "customers" satisfied. In contrast, if Walmart employees consistently treat customers rudely, Walmart will lose market share and eventually go out of business if the problem is severe enough.

Sample Partial Credit Answer

Walmart has competition.

Check the answer of this question online at QuizOver.com:

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#### 4.1.10. Contrast the very worst that a capitalist "tyrant" can do to you (a...

Author: Robert Murphy

Contrast the very worst that a capitalist "tyrant" can do to you (as a malcontented worker or an obnoxious customer) versus what a socialist tyrant can do to you.

- A capitalist boss can at worst fire a worker or refuse to sell to a customer. In contrast, the socialist ruler can assign an enemy to grueling work in Siberia (or its equivalent), deny educational opportunities to his children, provide inadequate health care, etc.

Sample Partial Credit Answer

A capitalist boss can fire you, that's really it.

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